

**CITY OF KEEGO HARBOR  
Oakland County, Michigan**

**AUDITED FINANCIAL REPORT**

**For the Fiscal Year Ended  
June 30, 2008**



CITY OF KEEGO HARBOR  
For the Year Ended June 30, 2008

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CITY OF KEEGO HARBOR  
For the Year Ended June 30, 2008

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## FINANCIAL SECTION





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## Independent Auditor's Report

September 18, 2008

To the Honorable Mayor and  
Members of the City Council  
City of Keego Harbor, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Keego Harbor, Michigan as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Keego Harbor's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Keego Harbor as of June 30, 2008, and the respective changes in financial position, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and the defined benefit pension plans-trend information, as listed in the table of contents, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board.



Honorable Mayor and  
Members of the City Council  
City of Keego Harbor, Michigan

We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on them.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Keego Harbor's basic financial statements. The accompanying other supplementary information, as identified in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The other supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Respectfully,

A handwritten signature in black ink, reading "Post Smythe Lutz and Ziel of Plymouth", is centered on the page. The signature is written in a cursive, flowing style.

Post, Smythe, Lutz and Ziel of Plymouth LLP  
Certified Public Accountants



## **Management's Discussion and Analysis**

### **Overview of the Financial Statements**

The City's annual report consists of management's discussion and analysis, government-wide financial statements, fund financial statements, notes to the financial statements, required supplemental information, and other supplemental information.

The government-wide financial statements are designed to provide a broad overview of the City's finances. The government-wide financial statements are presented on a full accrual basis, with an emphasis on measuring all economic resources and not just current financial resources, as measured in the individual fund statements. Two government-wide statements are provided.

The statement of net assets, presents information on all of the City's assets and liabilities with the difference shown as net assets. Increases or decreases of net assets from period to period provide useful information on the direction of the City's financial position over time.

The statement of activities provides information on how the government-wide net assets changed during the fiscal year. This statement provides information on income, expenses, and other increases or decreases in net assets.

Following the government-wide statements, individual fund financial statements are provided for the City's major funds with one column provided for nonmajor funds. These statements are grouped into governmental funds, which account for the cost of providing governmental-type services such as public safety and public works; and fiduciary funds, which account for assets held for outside parties.

Reconciliation between the individual fund statements and the government-wide financial statements is provided following the individual fund statements. The differences between the statement of net assets and the fund-based balance sheet are primarily related to inclusion of capital assets and long-term liabilities in the government-wide statement of net assets, which are not included in the fund-based balance sheet. The differences between the statement of activities and the statement of revenues, expenditures, and changes in fund balances primarily relate to the timing of reporting capital outlays and debt principal payments in the fund statements and a difference in the timing of the recognition of certain revenues and expenditures such as bond proceeds, accrued interest, and accrued employee leave time.

## **Financial Position**

The following table shows in a condensed format, the net assets of the City's governmental activities as of June 30, 2008:

### City of Keego Harbor - Net Assets

	<u>Governmental Activities</u>	
	<u>2008</u>	<u>2007</u>
Current and other assets	\$ 3,286,305	\$ 4,300,348
Capital Assets	<u>2,109,400</u>	<u>2,105,932</u>
Total Assets	<u>5,395,705</u>	<u>6,406,280</u>
Long-term liabilities outstanding	2,623,437	3,735,775
Other liabilities	<u>319,093</u>	<u>210,405</u>
Total Liabilities	<u>2,942,530</u>	<u>3,946,180</u>
Net Assets:		
Invested in capital assets, net of related debt	580,543	578,697
Restricted	858,460	866,061
Unrestricted	<u>1,014,172</u>	<u>1,015,342</u>
Total Net Assets	<u>\$ 2,453,175</u>	<u>\$ 2,460,100</u>

The following table shows the changes of the net assets during the year ended June 30, 2008:

City of Keego Harbor - Change in Net Assets

	Governmental Activities	
	2008	2007
Revenues:		
Program Revenues:		
Charges for Services	\$ 387,891	\$ 390,987
Operating Grants & Contributions	169,293	188,264
General Revenues:		
Property Taxes	1,722,081	1,587,472
State Shared Revenues	242,315	246,732
Franchise Fees	39,174	35,729
Unrestricted Investment Earnings	190,786	235,889
Loss on Disposal of Capital Assets	(158,189)	-
Total Revenues	<u>2,593,351</u>	<u>2,685,073</u>
Expenses:		
General Government	611,518	563,651
Public Safety	1,102,216	1,063,727
Public Works	593,693	503,200
Community Development	32,039	18,450
Recreation and Cultural	89,864	79,920
Interest on Long-Term Debt	153,944	192,041
Total Expenses	<u>2,583,274</u>	<u>2,420,989</u>
Increase in Net Assets Before Transfers	10,077	264,084
Transfers	(17,002)	-
Change in Net Assets	<u>\$ (6,925)</u>	<u>\$ 264,084</u>

The City had a decrease of \$6,925 in net assets in its governmental activities for the fiscal year ended June 30, 2008, compared to a \$264,084 increase for the fiscal year ended June 30, 2007. Contributing to the decrease is the disposal of previously capitalized items, totaling \$161,252, related to the planning of constructing the new city hall/police station on a different piece of property. The City has decided to construct the new building on the former city hall/police station site. Also, there was an increase in property tax revenue due to an increase in the taxable values from new construction.

## **Governmental Activities**

Over the last few years, the City has experienced steady growth in tax revenues accompanied by larger growth in expenses. History has taken a turn for the better: General Fund revenues exceeded expenditures in 07/08 by \$99,424, as compared to expenditures exceeding revenues in fiscal year 06/07 by \$121,026.

The fee schedules (charges for services) continue to be adjusted to better cover actual costs. In fiscal year 03/04, the City's budget lacked line item detail. Since 04/05, a more detailed history has been developed prospectively. State-shared revenues, statutorily designated to support local community services, have historically accounted for approximately 20 percent of the City's general operating revenues. State Shared Revenue has been consistently retained by the State of Michigan for the last several years for use in funding State expenditures. This fiscal year, the City received \$5,275 less in State-shared revenues than in fiscal year 2007, a 2% decrease. State Shared revenue has decreased from \$323,993 in 2000 to \$242,315 in 2008, a decrease of \$81,678, a 25% decrease. With a concerted effort to maximize the City's investment earnings, the City managed to earn \$52,622 from its General Fund investments.

The City of Keego Harbor has a healthy General Fund surplus (\$579,364) sufficient to meet limited shortfalls in current year revenues or increases in current year expenditures. The 2007/2008 fiscal year ended with a 27% ratio of fund balance to expenditures.

## **Analysis of Individual Funds**

Of the City's governmental funds, the General, Major Streets, Capital Projects, and TIFA Funds account for all significant expenditures.

The General Fund ended the fiscal year with an increase to its fund balance in the amount of \$99,424.

## **Capital Assets**

During fiscal year 2008, the increase in capital assets reflect the construction in progress on the new city hall/police building which will be completed in the fiscal year 2009.

## **Long-term Debt**

At the end of the current fiscal year, the City had total bond and Installment Purchase Loan debt outstanding of \$2,569,345. The City's total debt decreased by \$1,112,890 during the current fiscal year, as a result of the defeasance of the Tax Development Bonds of \$995,000.



## **Economic Factors**

Keego Harbor is experiencing modest redevelopment in both residential and commercial sectors. Keego Harbor, like most seasoned cities, depends on growth in property values to offset growth in expenditures, rather than new construction. Property taxes account for 63% of General Fund revenues. The taxable value of real property increased .94 percent from fiscal 2007 to 2008.

A residential and commercial redevelopment friendly atmosphere will be essential to the City's long term fiscal viability. This does not mean that we have to abandon our standards, but it does mean that we have to be open to productive change. The City needs to find and maintain that delicate balance between protecting our long term residents and welcoming new construction.

The City has budgeted for pension contributions, employee and retiree health care costs, and general insurance costs in the 2008-2009 fiscal year based on the best information known at the time. The City continues to experience increases in these costs.

The City has experienced no specific events which it believes will materially impact the finances of the City. However, certain long-term trends, such as capped property tax values and shrinking State-shared revenues, will have a direct impact on the City's ability to continue current service levels, unless the City experiences significant redevelopment of its downtown and aging housing stock.

## **Contacting the City's Financial Management**

This audit of the revenues and expenditures of the City is designed to depict the financial health of the City and demonstrate the uses of City resources. The audit also provides financial information to the City's investors and creditors.

If you have any questions about this report contact the City Manager, Mr. Dale A. Stuart or City Finance Director/Treasurer, Ms. Dorothy Silver at City Hall, P.O. Box 665, Keego Harbor, Michigan 48320-0665 or telephone number 248-682-1930.



## BASIC FINANCIAL STATEMENTS

**CITY OF KEEGO HARBOR**  
**Statement of Net Assets**  
**Governmental Activities**  
**June 30, 2008**

**ASSETS**

Cash and Cash Equivalents	\$ 3,093,675
Receivables (net of allowance for uncollectibles):	
Taxes	19,270
Due from Other Governmental Units	57,282
Prepaid Expenses	116,078
Capital Assets (Net of Accumulated Depreciation):	
Nondepreciable	745,901
Depreciable	1,363,499
Total Assets	<u>5,395,705</u>

**LIABILITIES**

Accounts Payable	169,329
Accrued Liabilities	45,717
Accrued Interest Payable	14,861
Deposits	69,915
Deferred Revenue	19,271
Noncurrent Liabilities:	
Bonds Payable, due within one year	110,000
Bonds Payable, due in more than one year	1,260,000
Loans Payable, due within one year	53,175
Loans Payable, due in more than one year	1,146,170
Compensated Absences, due within one year	17,310
Compensated Absences, due in more than one year	36,782
Total Liabilities	<u>2,942,530</u>

**NET ASSETS**

Invested in Capital Assets, net of related debt	580,543
Restricted for:	
Streets and Highways	791,052
Debt Service	58,639
Police Department Drug Forfeiture	4,695
Police Department Training	647
Veterans Memorial	3,427
Unrestricted	1,014,172
Total Net Assets	<u>\$ 2,453,175</u>

**CITY OF KEEGO HARBOR**  
**Statement of Activities**  
**For the Year Ended June 30, 2008**

<b><u>Functions/Programs</u></b>	<b><u>Expenses</u></b>	<b><u>Program Revenues</u></b>			<b><u>Net (Expense) Revenue and Changes in Net Assets Governmental Activities</u></b>
		<b><u>Charges for Services</u></b>	<b><u>Operating Grants and Contributions</u></b>	<b><u>Capital Grants and Contributions</u></b>	
<b>Primary Government:</b>					
Governmental Activities:					
General Government	\$ 611,518	\$ 142,653	\$ 160	\$ -	\$ (468,705)
Public Safety	1,102,216	163,193	6,637	-	(932,386)
Public Works	593,693	78,767	147,911	-	(367,015)
Community Development	32,039	2,150	5,111	-	(24,778)
Recreation and Cultural	89,864	1,128	9,474	-	(79,262)
Interest on Long-Term Debt	153,944	-	-	-	(153,944)
Total Governmental Activities	<u>\$ 2,583,274</u>	<u>\$ 387,891</u>	<u>\$ 169,293</u>	<u>\$ -</u>	<u>(2,026,090)</u>
General Revenues:					
Property Taxes					1,722,081
State Shared Revenue					242,315
Franchise Fees					39,174
Unrestricted Investment Earnings					190,786
Loss on Sale of Assets					(158,189)
Transfers					(17,002)
Total General Revenues and Transfers					<u>2,019,165</u>
Change in Net Assets					(6,925)
Net Assets - Beginning					<u>2,460,100</u>
Net Assets - Ending					<u>\$ 2,453,175</u>

**CITY OF KEEGO HARBOR**  
**Balance Sheet**  
**Governmental Funds**  
**June 30, 2008**

	<u>General Fund</u>	<u>Major Streets Fund</u>	<u>TIFA Fund</u>
<b><u>ASSETS</u></b>			
Cash and Cash Equivalents	\$ 588,489	\$ 701,426	\$ 310,508
Receivables (net of allowance for uncollectibles):			
Taxes	19,270	-	-
Due from Other Units	34,143	16,128	-
Prepaid Expenditures	94,468	-	-
	<u>          </u>	<u>          </u>	<u>          </u>
Total Assets	\$ <u>736,370</u>	\$ <u>717,554</u>	\$ <u>310,508</u>
<b><u>LIABILITIES AND FUND BALANCES</u></b>			
Liabilities:			
Accounts Payable	\$ 23,073	\$ 36	\$ -
Accrued and Other Liabilities	44,747	440	-
Deposits	69,915	-	-
Deferred Revenue	19,271	-	-
Total Liabilities	<u>157,006</u>	<u>476</u>	<u>-</u>
Fund Balances:			
Reserved for:			
Prepaid Expenditures	94,468	-	-
Veterans Memorial	-	-	-
Police Drug Forfeiture	4,695	-	-
Police Training	647	-	-
Debt Service	-	-	-
Construction	-	-	-
Unreserved for:			
General Fund	479,554	-	-
Special Revenue Funds	-	717,078	310,508
Capital Project Funds	-	-	-
Total Fund Balances	<u>579,364</u>	<u>717,078</u>	<u>310,508</u>
Total Liabilities and Fund Balances	\$ <u>736,370</u>	\$ <u>717,554</u>	\$ <u>310,508</u>

Amounts reported for governmental activities in the statement of net assets  
are different because:

Capital Assets used in governmental activities are not financial resources and,  
therefore, are not reported in the funds.

Long-term liabilities, including bonds payable, are not due and payable in the  
current period and therefore are not reported in the funds.

Net Assets of Governmental Activities

City Hall/ Police Construction Fund	Other Governmental Funds	Total Governmental Funds
\$ 1,185,157	\$ 308,095	\$ 3,093,675
-	-	19,270
-	7,011	57,282
-	21,610	116,078
<u>\$ 1,185,157</u>	<u>\$ 336,716</u>	<u>\$ 3,286,305</u>

\$ 144,669	\$ 1,551	\$ 169,329
-	530	45,717
-	-	69,915
-	-	19,271
<u>144,669</u>	<u>2,081</u>	<u>304,232</u>

-	21,610	116,078
-	3,427	3,427
-	-	4,695
-	-	647
-	58,639	58,639
1,040,488	-	1,040,488
-	-	479,554
-	72,866	1,100,452
-	178,093	178,093
<u>1,040,488</u>	<u>334,635</u>	<u>2,982,073</u>
<u>\$ 1,185,157</u>	<u>\$ 336,716</u>	

2,109,400

(2,638,298)

\$ 2,453,175

**CITY OF KEEGO HARBOR**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Governmental Funds**  
**For the Year Ended June 30, 2008**

	<u>General</u>	<u>Major Streets Fund</u>	<u>TIFA Fund</u>
<b><u>Revenues</u></b>			
Property Taxes	\$ 1,533,459	\$ -	\$ 133,453
Licenses and Permits	3,744	-	-
Intergovernmental:			
Federal, State and Local	253,314	98,448	-
Charges for Services	309,362	-	-
Fines and Forfeitures	61,493	-	-
Franchise Fees	39,174	-	-
Interest	52,622	34,944	16,200
Other	19,814	1,265	-
Total Revenues	<u>2,272,982</u>	<u>134,657</u>	<u>149,653</u>
<b><u>Expenditures</u></b>			
Current:			
General Government	584,399	-	-
Public Safety	1,086,268	-	-
Community Development	32,039	-	-
Public Works	313,453	77,878	36,197
Recreation and Cultural	85,910	-	-
Other	25,979	-	-
Debt Service:			
Principal	-	-	-
Interest and Other Charges	45,510	-	5,459
Capital Outlay	-	-	-
Total Expenditures	<u>2,173,558</u>	<u>77,878</u>	<u>41,656</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>99,424</u>	<u>56,779</u>	<u>107,997</u>
<b><u>Other Financing Sources (Uses)</u></b>			
Transfers In	-	-	-
Transfers Out	-	(24,612)	(134,242)
Bond Defeasance	-	-	(147,183)
Total Other Financing Sources and Uses	<u>-</u>	<u>(24,612)</u>	<u>(281,425)</u>
Net Change in Fund Balances	99,424	32,167	(173,428)
Fund Balances - Beginning	<u>479,940</u>	<u>684,911</u>	<u>483,936</u>
Fund Balances - Ending	<u>\$ 579,364</u>	<u>\$ 717,078</u>	<u>\$ 310,508</u>



City Hall/ Police Construction Fund	Other Governmental Funds	Total Governmental Funds
\$ -	\$ 55,169	\$ 1,722,081
-	-	3,744
-	49,463	401,225
-	-	309,362
-	-	61,493
-	-	39,174
61,647	25,373	190,786
-	2,596	23,675
<u>61,647</u>	<u>132,601</u>	<u>2,751,540</u>
-	-	584,399
-	-	1,086,268
-	-	32,039
-	106,555	534,083
-	-	85,910
-	-	25,979
-	117,890	117,890
-	89,939	140,908
240,150	1,607	241,757
<u>240,150</u>	<u>315,991</u>	<u>2,849,233</u>
<u>(178,503)</u>	<u>(183,390)</u>	<u>(97,693)</u>
-	158,854	158,854
-	(17,002)	(175,856)
-	(873,399)	(1,020,582)
<u>-</u>	<u>(731,547)</u>	<u>(1,037,584)</u>
(178,503)	(914,937)	(1,135,277)
<u>1,218,991</u>	<u>1,249,572</u>	<u>4,117,350</u>
<u>\$ 1,040,488</u>	<u>\$ 334,635</u>	<u>\$ 2,982,073</u>

**CITY OF KEEGO HARBOR**  
**Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**of Governmental Funds to the Statement of Activities**  
**For the Year Ended June 30, 2008**

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balances - total governmental funds	\$ (1,135,277)
--	----------------

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay exceeded depreciation expense in the current period.	3,468
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The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	<u>1,124,884</u>
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Change in net assets in governmental activities	<u><u>\$ (6,925)</u></u>
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**CITY OF KEEGO HARBOR**  
**Fiduciary Fund**  
**Statement of Assets and Liabilities**  
**June 30, 2008**

<b><u>ASSETS</u></b>	<b>Agency Fund</b>	<b>Tax Collection Agency Fund</b>
	<hr/>	<hr/>
Cash	\$ 18,800	\$ 14,255
	<hr/>	<hr/>
<b><u>LIABILITIES</u></b>		
Due to Skate Night	\$ 15,576	\$ -
Due to Carillon	1,940	-
Due to Garden Club	1,284	-
Due to Other	-	14,255
Total Liabilities	\$ 18,800	\$ 14,255
	<hr/>	<hr/>

CITY OF KEEGO HARBOR  
Notes to Financial Statements  
June 30, 2008

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The City of Keego Harbor, Michigan is governed by an elected five-member council. The accompanying financial statements present the City and its component unit, the City of Keego Harbor Tax Increment Financing Authority, an entity for which the City is considered to be financially accountable. Although blended component units are legal separate entities, in substance, they are part of the City's operations.

The City of Keego Harbor Tax Increment Financing Authority is governed by a board that is appointed by the Keego Harbor City Council. Although it is legally separate from the City, it is reported as if it were part of the primary government because its primary purpose is to finance and expand a road on behalf of the City's Major Streets Fund.

Jointly Governed Organization

The City is a member of the Tri-City Fire Department, which provides fire protection services to the residents of the City of Keego Harbor, the City of Sylvan Lake, and the City of Orchard Lake. The Tri-City Fire Department along with the participating communities have entered into an agreement with the West Bloomfield Township Fire Department to provide fire and emergency services. During the current year, the City contributed approximately \$224,869 to the Tri-City Fire Department. Complete financial statements for the Tri-City Fire Department can be obtained from the administrative offices at 3300 Orchard Lake Road, Orchard Lake, Michigan.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e. the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component unit. For the most part, the effect of interfund activity has been removed from these statements. The *governmental activities* shown on the government-wide financial statements are normally supported by taxes and intergovernmental revenues.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenue*.

CITY OF KEEGO HARBOR  
Notes to Financial Statements  
June 30, 2008

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

B. Government-Wide and Fund Financial Statements – Continued

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available if they are collected within 60 days of the end of the current fiscal period. The following major revenue sources meet the availability criterion: state-shared revenue, state gas and weight tax revenue, district court fines, and interest associated with the current fiscal period.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Governmental Funds

The City reports the following major governmental funds:

The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Major Street Fund is a special revenue fund used to account for the repair, maintenance, and construction of the City's major streets as identified by the State of Michigan Department of Transportation.

CITY OF KEEGO HARBOR  
Notes to Financial Statements  
June 30, 2008

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation – Continued

The Tax Increment Financing Authority Fund (TIFA) accounts for the financing of a road on behalf of the City's Major Streets Fund, and debt related to these projects and the new city hall/police facility construction. The activity is approved by the TIFA Board.

The City Hall/Police Construction Fund accounts for construction activity of the new city hall/police department building which is funded by an installment purchase loan issued during fiscal year 2006.

Additionally, the City reports the following fund types:

Special Revenue Funds are used to account for the proceeds of earmarked revenue or financing activities requiring separate accounting because of legal or regulatory provisions.

Debt Service Funds are used to account for the proceeds of principal, interest, and expenditures in connection with certain long-term debt obligations.

Capital Project Funds are used to account for capital improvement, equipment purchases, and construction activity funded by general revenues of the City.

Agency Funds are used to account for assets held by the City in a trustee capacity. Agency Funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements, and when both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as needed.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

CITY OF KEEGO HARBOR  
Notes to Financial Statements  
June 30, 2008

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

D. Assets, Liabilities and Net Assets or Equity

1. Deposits and Investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short term investments with original maturities of three months or less from the date of acquisition. State statutes authorize the City to invest in obligations of the U.S. Treasury, commercial paper of certain investment grades, and deposits of Michigan commercial banks. Investments for the City, as well as for its component units, are recorded at fair value.

2. Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due to/from other funds" (i.e. the current portion of interfund loans) or "advances to/from other funds" (i.e. non-current portion of interfund loans). All trade and property tax receivables are shown as net of allowance for uncollectible amounts.

3. Restricted Assets

The City's remaining bond proceeds are set aside for various upcoming debt service payments. These amounts have been classified as restricted.

4. Prepaid Expenses

Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

5. Capital Assets

Capital assets, which include property, plant, equipment, vehicles and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Property, plant and equipment of the primary government, as well as the component unit, is depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and Improvements	25-40
Furnishings, Fixtures, and Equipment	10-40
Vehicles	10-20

CITY OF KEEGO HARBOR  
Notes to Financial Statements  
June 30, 2008

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

D. Assets, Liabilities and Net Assets or Equity – Continued

6. Compensated Absences

In accordance with contracts negotiated with the various employee groups of the City, along with the City's employee policy manual, individual employees have vested rights upon termination of employment to receive payment for unused vacation and sick leave under formulas and conditions specified in the contracts. All sick and vacation pay is accrued when earned in the government-wide financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end.

7. Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

Long-term debt is recognized as a liability of a governmental fund when due. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund. The remaining portion of such obligations is reported in the Statement of Net Assets.

8. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.



CITY OF KEEGO HARBOR  
Notes to Financial Statements  
June 30, 2008

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. Explanation of Certain Differences Between the Governmental Fund Balance Sheet And the Statement of Net Assets

The governmental fund balance sheet includes a reconciliation between *fund balance - total governmental funds* and *net assets - governmental activities* as reported in the government-wide statement of net assets. One element of that reconciliation explains that "long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds." The details of this \$2,638,298 difference are as follows:

General Obligation Bonds Payable	\$ 1,370,000
Installment Loan Payable	1,199,345
Accrued Interest Payable	14,861
Compensated Absences Payable	<u>54,092</u>
	<u>\$ 2,638,298</u>

B. Explanation of Certain Differences Between the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances and the Government-wide Statement of Activities

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between *net changes in fund balances - total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that "governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense." The details of this \$3,468 difference are as follows:

Capital Outlay	\$ 243,530
Asset Disposals	(158,189)
Depreciation Expense	<u>(81,873)</u>
	<u>\$ 3,468</u>

Another element of that reconciliation states that "the issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets." The details of this \$1,124,884 difference are as follows:

Principal Paid on Debt	\$ 117,890
Principal Paid on Defeasance	995,000
Accrued Interest Payable	12,546
Compensated Absences	<u>(552)</u>
	<u>\$ 1,124,884</u>

CITY OF KEEGO HARBOR  
Notes to Financial Statements  
June 30, 2008

III. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

The City is legally subject to the budgetary control requirements of the State of Michigan P.A. 621 of 1978 (Uniform Budgeting Act). The following is a summary of the requirements of this act:

- a. Budgets must be adopted for the General and Special Revenue Funds.
- b. Budgets must be balanced.
- c. Budgets must be amended as necessary.
- d. Public hearings must be held prior to adoption.
- e. Expenditures cannot exceed budget appropriations.
- f. Expenditures must be authorized by a budget appropriation prior to being incurred.

The City follows these procedures in establishing the budgetary data reflected in these financial statements:

1. The City Charter requires one regular council meeting per month. Not later than the regular meeting in May, a proposed operating budget must be submitted to the City Council for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and means of financing them for the upcoming year.
2. A public hearing and adoption of the budget is required by the regular meeting in May.
3. Not later than the regular meeting in May, the tax rate must be set and the budget is legally enacted through passage of a budget resolution (general appropriation act).
4. Formal budgetary integration is employed as a management control device for the General and Special Revenue Funds. Budgets for these funds are prepared and adopted on a basis consistent with generally accepted accounting principles (GAAP). The General Fund and the Special Revenue Fund budgets are adopted at the activity level.
5. Budget appropriations lapse at year end.
6. The City Council may authorize supplemental appropriations (budget amendments) during the year. In fiscal year 2008, several budget amendments were made and are reflected in the financial statements.

CITY OF KEEGO HARBOR  
Notes to Financial Statements  
June 30, 2008

III. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY – Continued

B. Compliance with P.A. 621 of 1978

1. Deficit Fund Balance

The City has no deficit fund balances as of June 30, 2008.

2. Excess of Expenditures Over Appropriations in Budgetary Funds

The budget for the General Fund and Special Revenue Funds are adopted at the activity level. The City's expenditures exceeded the final budgeted appropriations at June 30, 2008 in the General Fund Community Development activity level with a final amended budget of \$28,705 and the final actual expenditures of \$32,039.

C. Public Act 245 of 1999 Compliance

In accordance with the State Construction Code Act, Public Act 245 of 1999, the City must account for cumulative revenues over or under expenditures generated by the City's building department from January 1, 2000 and forward.

The cumulative amounts as of June 30, 2008 are as follows:

Cumulative Shortfall at June 30, 2007	\$ <u>(233,791)</u>
Fees Collected in Fiscal Year 2008	75,402
Expenditures in Fiscal Year 2008	<u>(160,286)</u>
Revenues Over (Under) Expenditures	<u>(84,884)</u>
Cumulative Shortfall at June 30, 2008	\$ <u>(318,675)</u>

IV. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

Under State law, the City is permitted to invest in deposits with Michigan commercial banks, savings and loans and credit unions, obligations of the U.S. Treasury, and corporate bonds and commercial paper with certain investment grades.

CITY OF KEEGO HARBOR  
Notes to Financial Statements  
June 30, 2008

IV. DETAILED NOTES ON ALL FUNDS – Continued

A. Deposits and Investments – Continued

The following information, as required by the Governmental Accounting Standards Board Statement number 40 is presented, regarding the City's deposits and investments:

Custodial Credit Risk is the risk that in the event of a bank failure, the City's deposits may not be recovered. Neither State law nor the City's investment policy requires consideration of custodial credit risk. As of June 30, 2008, the City's book balance of its deposits was \$3,126,380; the total book balance was \$3,126,730, due to \$350 in cash on hand. The bank balance was \$3,219,504 which was exposed to custodial credit risk, as follows:

	<u>Bank Balance</u>
Insured by F.D.I.C.	\$ 790,520
Uninsured and Uncollateralized	<u>2,428,984</u>
Total	<u>\$3,219,504</u>

A reconciliation of cash as it appears on the financial statements follows:

Cash and Cash Equivalents per:	
Statement of Net Assets	\$3,093,675
Fiduciary Fund – Statement of Assets and Liabilities	<u>33,055</u>
Total	<u>\$3,126,730</u>

Credit Risk. State law limits investments in commercial paper, corporate bonds, and mutual bond funds to the top two ratings issued by nationally recognized statistical rating organizations. The City has no investment policy that would further limit its investment choices.

Interest Rate Risk. The City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The City's deposits and investments consisted of the following:

<u>Deposits and Investments</u>	<u>Fair Value</u>	<u>Weighted Average Maturity</u>
Savings and Checking Accounts	\$ 125,109	Demand
Pooled Investments (Share price=\$1)	2,357,550	Demand
Certificates of Deposits-Less than one year	<u>736,845</u>	160 Days
	<u>\$3,219,504</u>	

CITY OF KEEGO HARBOR  
Notes to Financial Statements  
June 30, 2008

IV. DETAILED NOTES ON ALL FUNDS – Continued

A. Deposits and Investments – Continued

Concentration of Credit Risk. The City's investment policy places no limit on the amount the City may invest in any one issuer. The City has no more than 5 percent of its investments in any one financial institution.

B. Capital Assets

Capital asset activity for the year ended June 30, 2008 was as follows:

<u>Governmental Activities:</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Capital Assets, not depreciated:				
Land	\$ 745,901	\$ -	\$ -	\$ 745,901
Capital Assets, being depreciated:				
Infrastructure	950,277	-	-	950,277
Building and Improvements	289,412	240,150	(161,252)	368,310
Furnishings, Fixtures, and Equipment	221,742	1,445	(2,384)	220,803
Vehicles	267,046	1,935	(200)	268,781
	<u>1,728,477</u>	<u>243,530</u>	<u>(163,836)</u>	<u>1,808,171</u>
Less: Accumulated Depreciation:				
Infrastructure	(45,120)	(23,757)	-	(68,877)
Building and Improvements	(68,496)	(9,370)	3,647	(74,219)
Furnishings, Fixtures, and Equipment	(115,256)	(25,335)	2,000	(138,591)
Vehicles	(139,574)	(23,411)	-	(162,985)
	<u>(368,446)</u>	<u>(81,873)</u>	<u>5,647</u>	<u>(444,672)</u>
Governmental Activities Capital Assets, net	\$ <u>2,105,932</u>	\$ <u>161,657</u>	\$ <u>(158,189)</u>	\$ <u>2,109,400</u>

Depreciation expense was charged on the Statement of Activities as follows:

General Government	\$ 2,913
Public Safety	15,396
Public Works	59,610
Recreation and Cultural	3,954
	<u>\$ 81,873</u>

CITY OF KEEGO HARBOR  
Notes to Financial Statements  
June 30, 2008

IV. DETAILED NOTES ON ALL FUNDS – Continued

C. Interfund Transfers

<u>Transfers Out:</u>	<u>Transfers In:</u>	<u>Total</u>
Major Streets Fund	Local Streets Fund	\$ 24,612
Beautification Fund	Agency Fund	442
Police Community Events	Agency Fund	14,697
Carillon Fund	Agency Fund	1,863
TIFA Fund	TIFA Debt Service Fund	111,430
TIFA Fund	TIFA City Hall/Police Debt	<u>22,812</u>
		<u>\$ 175,856</u>

Transfers to the Agency Fund from the Beautification, Police Department Community Events, and Carillon Funds were to reclassify community activities not administrated by the City.

Transfer to the Local Streets Fund from the Major Streets Fund is to fund current year local street projects.

Transfers to the Debt Service Funds are funding for semi-annual debt payments.

CITY OF KEEGO HARBOR  
Notes to Financial Statements  
June 30, 2008

IV. DETAILED NOTES ON ALL FUNDS – Continued

D. Long-Term Debt

The following is a summary of long-term debt transactions of the City for the year ended June 30, 2008:

	<u>Interest Rates</u>	<u>Balance July 1, 2007</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2008</u>	<u>Due Within One Year</u>
Governmental Activities:						
General Obligation Bonds:						
Tri-City Fire Station Bonds						
Issue Amount: \$460,000						
Maturing through 2009	5.25%	\$ 150,000	\$ -	\$ 45,000	\$ 105,000	\$ 50,000
Capital Improvement Bonds						
Issue Amount: \$1,400,000						
Maturing through 2022	3.50-4.60%	1,320,000	-	55,000	1,265,000	60,000
Tax Development Bonds						
Issue Amount: \$995,000						
Maturing through 2026	4.50-4.80%	<u>995,000</u>	<u>-</u>	<u>995,000</u>	<u>-</u>	<u>-</u>
Total General Obligation Bonds		<u>2,465,000</u>	<u>-</u>	<u>1,095,000</u>	<u>1,370,000</u>	<u>110,000</u>
Installment Purchase Loan						
Issue Amount: \$1,160,000						
Maturing through 2020	4.31%	1,160,000	-	-	1,160,000	34,122
Installment Purchase Loan-Vehicles						
Issue Amount: \$78,845						
Maturing through 2010	6.50%	57,235	-	17,890	39,345	19,053
Compensated Absences		<u>53,540</u>	<u>552</u>	<u>-</u>	<u>54,092</u>	<u>17,310</u>
		<u>\$ 3,735,775</u>	<u>\$ 552</u>	<u>\$ 1,112,890</u>	<u>\$ 2,623,437</u>	<u>\$ 180,485</u>

In November 2007, the City advance refunded the Tax Increment Finance Authority Limited Tax Development Bonds, Series 2006 which had debt principal outstanding of \$995,000. The City purchased \$1,020,542 of State and Local Government Securities which were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments of the refunded debt. As a result, the refunded bonds are considered to be defeased and the liability removed from the City's financial statements. This advance refunding was undertaken to reduce total debt service payments over the next 8 years by \$545,758 to obtain an economic gain of \$513,861.

CITY OF KEEGO HARBOR  
Notes to Financial Statements  
June 30, 2008

IV. DETAILED NOTES ON ALL FUNDS – Continued

D. Long-Term Debt – Continued

The annual debt service requirements to maturity for general obligation bonds outstanding as of June 30, 2008 are as follows:

<u>Year Ended</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2009	\$ 166,132	\$ 115,259
2010	201,342	107,755
2011	152,332	97,757
2012	160,782	90,263
2013	169,937	83,308
2014-2018	962,812	305,343
2019-2023	756,008	97,525
	<u>\$ 2,569,345</u>	<u>\$ 897,210</u>

E. Reserved Fund Balance

A detailed description of fund balance reservations and designations (for all governmental fund types) at June 30, 2008, is presented below:

	<u>General Fund</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Project</u>
Reserved for:				
Prepaid Expenditures	\$ 94,468	\$ -	\$ -	\$ 21,610
Veterans Memorial	-	-	-	3,427
Police Drug Forfeiture	4,695	-	-	-
Police Training	647	-	-	-
Debt Service	-	-	58,639	-
Construction	-	-	-	1,040,488
Total Reserved	<u>99,810</u>	<u>-</u>	<u>58,639</u>	<u>1,065,525</u>
Unreserved:				
Designated for:				
Subsequent Years Expenditures	-	20,900	-	-
Insurance Deductible	10,000	-	-	-
Emergency Reserve	1,000	-	-	-
Retiree Health Care	30,000	-	-	-
Tax Foreclosure	20,000	-	-	-
Repairs & Improvements	41,000	-	-	-
Special Programs	50,000	-	-	-
Undesignated	<u>327,554</u>	<u>1,079,552</u>	<u>-</u>	<u>178,093</u>
Total Fund Balance	<u>\$ 579,364</u>	<u>\$ 1,100,452</u>	<u>\$ 58,639</u>	<u>\$ 1,243,618</u>



CITY OF KEEGO HARBOR  
Notes to Financial Statements  
June 30, 2008

IV. DETAILED NOTES ON ALL FUNDS – Continued

F. Property Taxes

Property taxes are assessed as of each December 31. The City tax levy is billed on July 1 of the following year. Taxes are considered delinquent on July 31, at which time the applicable property is subject to lien and penalty and interest is assessed. The maximum authorized operating levy for the City is 20 mills. The City's tax levy for the 2007 tax roll is as follows (tax rate per \$1,000 of assessed valuation):

General Operating	12.4616
Publicity	.4267
Debt - Voted	<u>.4815</u>
Total	<u>13.3698</u> mills

V. OTHER INFORMATION

A. Employee Retirement Systems and Plans

1. Municipal Employees Retirement System Defined Benefit Plan

a. Plan Description

The City contributes to the Michigan Municipal Employees' Retirement System (MMERS), which is an agent multiple employer retirement system that covers all full time employees of the City. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. The service requirement is computed using credited service at the time of termination of membership multiplied by a certain percentage based on the benefit program in effect as of the date of termination of membership times the final average compensation (FAC). The most recent period for which actuarial data was available was for the actuarial valuation as of December 31, 2007.

MERS was organized pursuant to Section 12a of Act #156, Public Acts of the State of Michigan (MSA 5.333(a); MCLA 46.12(a)). MERS is regulated under Act No. 427 of the Public Acts of 1984, sections of which have been approved by the State Pension Council. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the System at 1134 Municipal Way, Lansing, Michigan 48917.

CITY OF KEEGO HARBOR  
Notes to Financial Statements  
June 30, 2008

V. OTHER INFORMATION – Continued

A. Employee Retirement Systems and Plans – Continued

1. Municipal Employees Retirement System Defined Benefit Plan – Continued

b. Funding Policy

The obligation to contribute to and maintain the system for these employees was established by negotiation with the City's collective bargaining units and personnel policy. The City is required to contribute at an actuarially determined rate; the current rate was a percentage of annual compensation at December 31, 2005 as follows:

General	19.64%
Police - Fire	15.72%

c. Annual Pension Cost

During the fiscal year ended June 30, 2008, the City's contributions totaling \$131,012 and employees' contributions totaling \$21,723 were made in accordance with contribution requirements determined by an actuarial valuation of the plan as of December 31, 2005.

The employer contribution rate has been determined based on the entry age normal cost funding method. Under the entry age normal cost funding method, the total employer contribution is comprised of the normal cost plus the level annual percentage of payroll payment required to amortize the unfunded actuarial accrued liability over 30 years. The employer normal cost is, for each employee, the level percentage of payroll contribution (from entry age to retirement) required to accumulate sufficient assets at the member's retirement to pay for his projected benefit. Significant actuarial assumptions used include a long-term investment yield rate of 8% and annual salary increases of 4.5% based on an age-related scale to reflect merit, longevity, and promotional salary increases.

<u>Three-Year Trend Information</u>				
<u>Fiscal Year</u> <u>Ended</u> <u>June 30,</u>	<u>Valuation</u> <u>Date</u> <u>Dec. 31</u>	<u>Annual</u> <u>Pension</u> <u>Cost (APC)</u>	<u>Percentage</u> <u>of APC</u> <u>Contributed</u>	<u>Net</u> <u>Pension</u> <u>Obligation</u>
2006	2003	\$100,233	100%	-0-
2007	2004	121,858	100%	-0-
2008	2005	131,012	100%	-0-

The information presented above was determined as part of the actuarial valuations at the dates indicated.

CITY OF KEEGO HARBOR  
Notes to Financial Statements  
June 30, 2008

V. OTHER INFORMATION – Continued

B. Post Retirement Health Care Benefits

The City provides health care insurance coverage to all eligible full-time employees who retire from the City, in accordance with labor contracts and City policy. Currently 2 retirees are covered by this plan. The City includes pre-Medicare retirees and their dependents in its insured health care plan, with no contribution required by the participant. The City purchases Medicare supplemental insurance for retirees eligible for Medicare. These benefits are expensed in the year paid, on a pay-as-you-go basis. Total expenditures were \$12,468 for the year ended June 30, 2008.

C. Risk Management

The City is a member of the Michigan Municipal Risk Management Authority for its general liability coverage and a member of the Michigan Municipal Workers Compensation Fund for its workers compensation coverage. The City pays annual premiums to the pools. The pools are self-sustaining through member premiums, and each carries reinsurance through commercial companies for claims in excess of the pool loss reserve fund.

In the event that a single loss should exceed the amount of protection afforded by the pool loss reserve fund, reinsurance, or other insurance carried by the pools, or in the event that a series of losses should deplete or exhaust the loss reserve fund and reinsurance, the payment of valid losses shall be the obligation of the individual member or members of the respective pool against whom the claim was made.

No such event has occurred with the City and the pools to which it belongs in any of the past three fiscal years.



REQUIRED SUPPLEMENTARY INFORMATION



CITY OF KEEGO HARBOR  
Required Supplementary Information – (Unaudited)  
Defined Benefit Pension Plans – Trend Information  
For the Year Ended June 30, 2008

Municipal Employees Retirement System  
Schedule of Funding Progress

<u>Actuarial</u> <u>Valuation</u> <u>Date</u>	<u>Actuarial</u> <u>Value of</u> <u>Assets</u>	<u>Actuarial</u> <u>Accrued</u> <u>Liability (AAL)</u>	<u>Unfunded</u> <u>AAL</u> <u>(UAAL)</u>	<u>Funded</u> <u>Ratio</u>	<u>Covered</u> <u>Payroll</u>	<u>UAAL as a</u> <u>Percent of</u> <u>Covered Payroll</u>
12/31/01	\$1,261,021	\$1,472,387	\$211,366	86%	\$528,156	40%
12/31/02	1,278,011	1,550,351	272,340	82	555,463	49
12/31/03	1,390,051	2,027,587	637,536	69	567,030	112
12/31/04	1,529,043	2,266,651	737,608	67	582,755	127
12/31/05	1,723,202	2,475,745	752,543	70	574,952	131
12/31/06	1,904,384	2,693,210	788,826	71	678,492	116
12/31/07	2,107,062	2,972,595	865,533	71	698,153	124

Additional information as of December 31, 2007, the latest actual valuation, follows:

Actuarial cost method	Entry age normal cost
Amortization method	Level percent
Remaining amortization period	30 years
Asset valuation method	5-year smoothed market
Actuarial assumptions:	
Investment rate of return	8%
Projected salary increases	4.50% - 12.90%
Includes inflation at 4.5%	
Cost of living adjustments	None

**CITY OF KEEGO HARBOR**  
**General Fund**  
**Statement of Revenues, Expenditures and Changes**  
**in Fund Balance - Budget and Actual**  
**For the Year Ended June 30, 2008**

	<b><u>Budgeted Amounts</u></b>			<b><u>Variance with</u></b>
	<b><u>Original</u></b>	<b><u>Final</u></b>	<b><u>Actual</u></b>	<b><u>Final Budget</u></b>
Revenues:				
Property Taxes	\$ 1,537,450	\$ 1,533,126	\$ 1,533,459	\$ 333
Licenses and Permits	3,305	3,695	3,744	49
Intergovernmental - Federal/CDBG	10,780	10,780	5,111	(5,669)
Intergovernmental - State	253,260	247,615	248,043	428
Intergovernmental - County	200	160	160	-
Charges for Services	244,825	311,213	309,362	(1,851)
Fines and Forfeitures	55,000	61,493	61,493	-
Franchise Fees	30,000	39,640	39,174	(466)
Interest	40,000	52,770	52,622	(148)
Other	8,820	19,174	19,814	640
Total Revenues	<u>2,183,640</u>	<u>2,279,666</u>	<u>2,272,982</u>	<u>(6,684)</u>
Expenditures:				
General Government:				
City Council	15,617	15,563	15,887	(324)
City Manager	93,460	108,564	103,435	5,129
Elections	2,685	2,685	2,379	306
Assessing	23,800	23,800	23,012	788
Clerk	125,105	130,419	126,888	3,531
Information Technology	8,275	8,275	5,841	2,434
Board of Review	500	500	310	190
Finance/Treasurer	151,625	153,240	152,222	1,018
Legal	62,200	62,200	52,858	9,342
Audit	14,000	14,000	14,000	-
Building and Grounds	81,590	89,147	87,567	1,580
Total General Government	<u>578,857</u>	<u>608,393</u>	<u>584,399</u>	<u>23,994</u>
Public Safety:				
Police	729,815	703,062	701,113	1,949
Fire	224,925	224,925	224,869	56
Inspection Services	164,304	167,903	160,286	7,617
Total Public Safety	<u>1,119,044</u>	<u>1,095,890</u>	<u>1,086,268</u>	<u>9,622</u>
Community Development:				
CDBG	10,780	10,780	5,285	5,495
Main Street	200	200	450	(250)
Planning	10,950	14,975	24,536	(9,561)
Zoning	3,750	2,750	1,768	982
Total Community Development	<u>25,680</u>	<u>28,705</u>	<u>32,039</u>	<u>(3,334)</u>
Public Works:				
Department of Public Works	284,020	276,957	266,747	10,210
Street Lighting	42,000	43,265	46,706	(3,441)
Total Public Works	<u>326,020</u>	<u>320,222</u>	<u>313,453</u>	<u>6,769</u>

(Continued)



**CITY OF KEEGO HARBOR**  
**General Fund**  
**Statement of Revenues, Expenditures and Changes**  
**in Fund Balance - Budget and Actual**  
**For the Year Ended June 30, 2008**

	<b><u>Budgeted Amounts</u></b>		<b><u>Actual</u></b>	<b><u>Variance with</u></b>
	<b><u>Original</u></b>	<b><u>Final</u></b>		<b><u>Final Budget</u></b>
Recreation and Cultural:				
Parks	\$ 33,915	\$ 40,880	\$ 42,974	\$ (2,094)
Recreation	3,650	10,225	7,958	2,267
Library	34,445	34,380	34,378	2
Garden Club	600	600	600	-
Total Recreation and Cultural	<u>72,610</u>	<u>86,085</u>	<u>85,910</u>	<u>175</u>
Other Functions:				
Retiree Health Insurance	13,520	13,717	13,655	62
Tax Tribunals	500	12,824	12,324	500
Contingencies	9,534	68,320	-	68,320
Total Other Functions	<u>23,554</u>	<u>94,861</u>	<u>25,979</u>	<u>68,882</u>
Debt Service:				
Interest and Fees	<u>37,875</u>	<u>45,510</u>	<u>45,510</u>	<u>-</u>
Total Expenditures	<u>2,183,640</u>	<u>2,279,666</u>	<u>2,173,558</u>	<u>106,108</u>
Excess (Deficiency) of Revenues Over Expenditures	-	-	99,424	99,424
Fund Balance - July 1	<u>479,940</u>	<u>479,940</u>	<u>479,940</u>	<u>-</u>
Fund Balance - June 30	<u>\$ 479,940</u>	<u>\$ 479,940</u>	<u>\$ 579,364</u>	<u>\$ 99,424</u>

**CITY OF KEEGO HARBOR**  
**Major Streets Special Revenue Fund**  
**Statement of Revenues, Expenditures and Changes**  
**in Fund Balance - Budget and Actual**  
**For the Year Ended June 30, 2008**

	<b><u>Budgeted Amounts</u></b>			<b><u>Variance with</u></b>
	<b><u>Original</u></b>	<b><u>Final</u></b>	<b><u>Actual</u></b>	<b><u>Final Budget</u></b>
Revenues:				
State	\$ 96,000	\$ 100,040	\$ 98,448	\$ (1,592)
Interest	25,000	32,307	34,944	2,637
Other	300	1,268	1,265	(3)
Total Revenues	<u>121,300</u>	<u>133,615</u>	<u>134,657</u>	<u>1,042</u>
Expenditures:				
Highways and Streets:				
General Administration	9,600	9,980	9,874	106
Routine Maintenance	17,620	37,689	35,642	2,047
Traffic Services	2,500	3,000	2,950	50
Winter Maintenance	10,730	29,170	29,162	8
Other	1,250	1,280	250	1,030
Total Expenditures	<u>41,700</u>	<u>81,119</u>	<u>77,878</u>	<u>3,241</u>
Excess (Deficiency) of Revenues Over Expenditures	79,600	52,496	56,779	4,283
Other Financing Uses:				
Operating Transfers Out	<u>(24,000)</u>	<u>(24,950)</u>	<u>(24,612)</u>	<u>338</u>
Net Change in Fund Balance	55,600	27,546	32,167	4,621
Fund Balance - July 1	<u>684,911</u>	<u>684,911</u>	<u>684,911</u>	<u>-</u>
Fund Balance - June 30	<u>\$ 740,511</u>	<u>\$ 712,457</u>	<u>\$ 717,078</u>	<u>\$ 4,621</u>

**CITY OF KEEGO HARBOR**  
**TIFA Special Revenue Fund**  
**Statement of Revenues, Expenditures and Changes**  
**in Fund Balance - Budget and Actual**  
**For the Year Ended June 30, 2008**

	<b><u>Budgeted Amounts</u></b>			<b><u>Variance with</u></b>
	<b><u>Original</u></b>	<b><u>Final</u></b>	<b><u>Actual</u></b>	<b><u>Final Budget</u></b>
Revenues:				
Property Taxes	\$ 133,730	\$ 133,453	\$ 133,453	\$ -
Interest	15,025	15,170	16,200	1,030
Total Revenues	<u>148,755</u>	<u>148,623</u>	<u>149,653</u>	<u>1,030</u>
Expenditures:				
Public Works	37,280	65,230	36,197	29,033
Debt Service:				
Interest	13,095	5,459	5,459	-
Total Expenditures	<u>50,375</u>	<u>70,689</u>	<u>41,656</u>	<u>29,033</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>98,380</u>	<u>77,934</u>	<u>107,997</u>	<u>30,063</u>
Other Financing Uses:				
Operating Transfers Out	(157,280)	(134,242)	(134,242)	-
Bond Defeasance	-	(147,183)	(147,183)	-
Total Other Financing Uses	<u>(157,280)</u>	<u>(281,425)</u>	<u>(281,425)</u>	<u>-</u>
Net Change in Fund Balance	(58,900)	(203,491)	(173,428)	30,063
Fund Balance - July 1	<u>483,936</u>	<u>483,936</u>	<u>483,936</u>	<u>-</u>
Fund Balance - June 30	<u>\$ 425,036</u>	<u>\$ 280,445</u>	<u>\$ 310,508</u>	<u>\$ 30,063</u>



OTHER SUPPLEMENTARY INFORMATION

**CITY OF KEEGO HARBOR**  
**Nonmajor Governmental Funds**  
**Combining Balance Sheet**  
**June 30, 2008**

	Special Revenue Funds			
	Local Street	Beautification	Police Dept. Community Events	Carillon
<b><u>Assets</u></b>				
Cash and Cash Equivalents	\$ 66,963	\$ -	\$ -	\$ -
Due from State	7,011	-	-	-
Prepaid Expenditures	-	-	-	-
Total Assets	<u>\$ 73,974</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<b><u>Liabilities and Fund Balance</u></b>				
Liabilities:				
Accounts Payable	\$ 578	\$ -	\$ -	\$ -
Accrued Liabilities	530	-	-	-
Total Liabilities	<u>1,108</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balance:				
Reserved for Debt	-	-	-	-
Reserved for Veterans Memorial	-	-	-	-
Reserved for Prepaid Expenditures	-	-	-	-
Designated for Subsequent Years				
Expenditures	20,900	-	-	-
Undesignated	51,966	-	-	-
Total Fund Balance	<u>72,866</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Liabilities and Fund Balance	<u>\$ 73,974</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Debt Service Funds			Capital Project Funds		Total
Fire G.O. Bonds	TIFA Debt	TIFA City Hall/ Police Debt	Capital Projects Fund	TIFA City Hall/ Police Construction	
\$ 58,564	\$ 75	\$ -	\$ 182,493	\$ -	\$ 308,095
-	-	-	-	-	7,011
-	-	-	21,610	-	21,610
<u>\$ 58,564</u>	<u>\$ 75</u>	<u>\$ -</u>	<u>\$ 204,103</u>	<u>\$ -</u>	<u>\$ 336,716</u>
\$ -	\$ -	\$ -	\$ 973	\$ -	\$ 1,551
-	-	-	-	-	530
-	-	-	973	-	2,081
58,564	75	-	-	-	58,639
-	-	-	3,427	-	3,427
-	-	-	21,610	-	21,610
-	-	-	62,960	-	83,860
-	-	-	115,133	-	167,099
<u>58,564</u>	<u>75</u>	<u>-</u>	<u>203,130</u>	<u>-</u>	<u>334,635</u>
<u>\$ 58,564</u>	<u>\$ 75</u>	<u>\$ -</u>	<u>\$ 204,103</u>	<u>\$ -</u>	<u>\$ 336,716</u>

**CITY OF KEEGO HARBOR**  
**Nonmajor Governmental Funds**  
**Combining Statement of Revenues, Expenditures**  
**and Changes in Fund Balance**  
**For the Year Ended June 30, 2008**

	Special Revenue Funds			
	Local Street	Beautification	Police Dept. Community Events	Carillon
Revenues:				
Property Taxes	\$ -	\$ -	\$ -	\$ -
State	49,463	-	-	-
Interest	2,276	-	-	-
Other	2,596	-	-	-
Total Revenues	54,335	-	-	-
Expenditures:				
Public Works	106,555	-	-	-
Debt Service:				
Principal	-	-	-	-
Interest and Fees	-	-	-	-
Capital Outlay	-	-	-	-
Total Expenditures	106,555	-	-	-
Excess (Deficiency) of Revenues Over Expenditures	(52,220)	-	-	-
Other Financing Sources (Uses):				
Operating Transfers In	24,612	-	-	-
Operating Transfers Out	-	(442)	(14,697)	(1,863)
Bond Defeasance	-	-	-	-
Total Other Financing Sources (Uses)	24,612	(442)	(14,697)	(1,863)
Net Change in Fund Balance	(27,608)	(442)	(14,697)	(1,863)
Fund Balance - July 1	100,474	442	14,697	1,863
Fund Balance - June 30	\$ 72,866	\$ -	\$ -	\$ -



Debt Service Funds			Capital Project Funds		Total
Fire G.O. Bonds	TIFA Debt	TIFA City Hall/ Police Debt	Capital Projects Fund	TIFA City Hall/ Police Construction	
\$ 55,169	\$ -	\$ -	\$ -	\$ -	\$ 55,169
-	-	-	-	-	49,463
1,783	-	-	8,588	12,726	25,373
-	-	-	-	-	2,596
56,952	-	-	8,588	12,726	132,601
-	-	-	-	-	106,555
45,000	55,000	-	17,890	-	117,890
7,052	56,355	22,812	3,720	-	89,939
-	-	-	1,607	-	1,607
52,052	111,355	22,812	23,217	-	315,991
4,900	(111,355)	(22,812)	(14,629)	12,726	(183,390)
-	111,430	22,812	-	-	158,854
-	-	-	-	-	(17,002)
-	-	-	-	(873,399)	(873,399)
-	111,430	22,812	-	(873,399)	(731,547)
4,900	75	-	(14,629)	(860,673)	(914,937)
53,664	-	-	217,759	860,673	1,249,572
\$ 58,564	\$ 75	\$ -	\$ 203,130	\$ -	\$ 334,635

